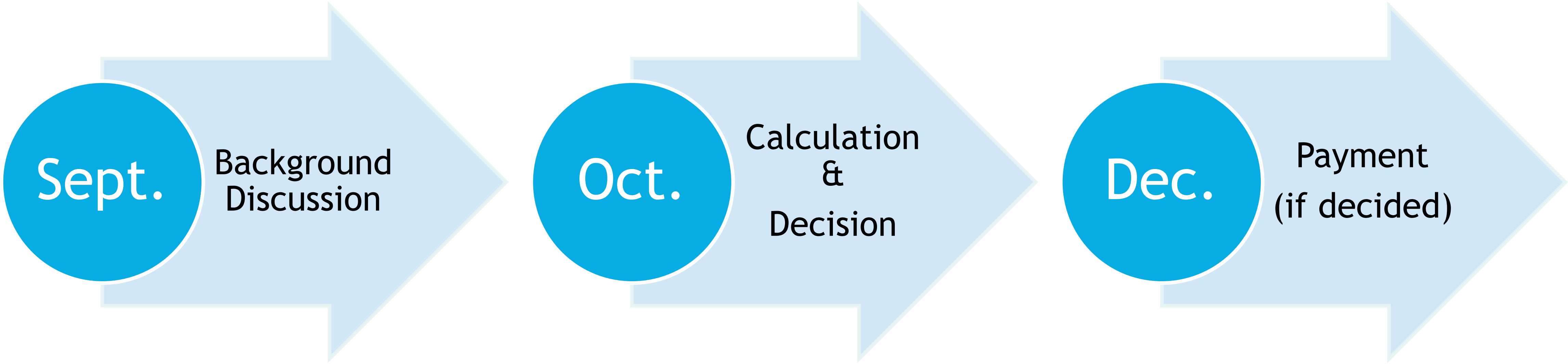
Supplemental Benefit Overview

Sept. 20, 2024

Background

- **The Supplemental Benefit Payment has not been utilized since 2000**
- **We'll walk through the process as follows:**



Background

Past Supplemental Benefit Payments 1980-2000

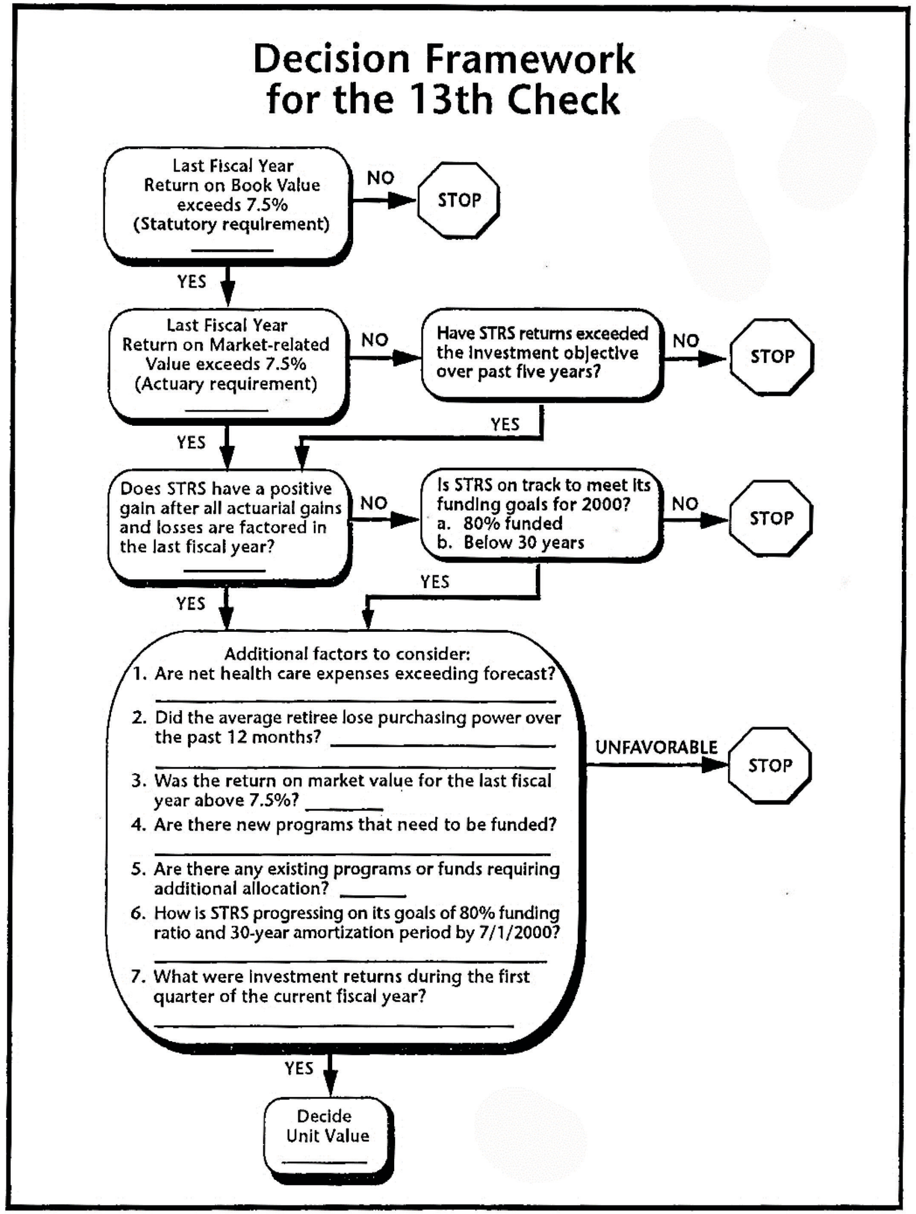
- Ranged from $13.1 million to $50.4 million
- Averaging $33.9 million
- Payments made in all 21 years
- Total payments of $700 million amount to a $10B impact on assets

Examples of past payments:

FY ending June 30 ($ in millions)	Net Gain (Loss)	Amount Paid
2000	$2,108	$50.4*
1999	$2,221	$48.5
1998	$1,705	$46.4
1997	$1,111	$44.9
1996	$516	$43.3

*From the 2000 valuation report: "The board elected to use $50.8 million to fund the supplemental benefit payments to retirees to be made during December 2000. The remainder [of the net gain] was used to reduce the unfunded liability"

Past Decision Framework



- The supplemental benefit payment is authorized by statute which establishes the maximum amount
- Past boards used a decision framework to help determine the amount paid
- We'll update the framework and incorporate the Sustainable Benefits Plan

Updated Decision Framework

Critical factors
(if any one is no, then stop)

1. Is at least de-minimis spending available?
2. Does the market return exceed the assumed rate of return?
3. Does the five-year average market return exceed the assumed rate of return by at least 50 bps?

Example 2023
(illustrative only)

1. Yes, $850 million de-minimis was available
2. Yes, 8.5% compared to 7.0% assumed
3. Yes, 7.9% compared to 7.0%

Updated Decision Framework

Additional factors
(if two or more are no, then stop)

4. No new programs that need funding?
5. No existing programs or funds that require additional allocation?
6. Was the investment return for the first quarter of the current fiscal year at least positive?

Example 2023
(illustrative only)

4. Yes, there are no new programs that require funding
5. Yes, there are no additional allocations required to be made to a fund or program
6. No, the first quarter return of fiscal 2024 was negative

If Decision is Yes, Steps to Payment

Step 1: Decide the benefit amount

- Start with calculation set in statute
- Reduce to be less than de-minimis if necessary
- Board decides final value

Step 2: Calculate the unit value

Step 3: Determine each individual's number of units

Step 4: Determine each eligible payment

1. Benefit amount = board decision
2. Unit value = benefit amount ÷ total units, rounded down to the nearest dollar
3. Units = years of service + years receiving benefits*
4. Payment = units × unit value

*There are special rules for service retiree, disability recipient, beneficiary, etc.

Example Benefit Calculation

Step 1: Decide the benefit amount (board)

- Assume benefit amount = $50 million (illustrative)

Step 2: Calculate the unit value

- Assume 7 million total units
- Unit value = $50,000,000 ÷ 7,000,000, rounded down to nearest dollar = $7

Steps 3 & 4: Determine each individual's number of units and eligible payment

- Roger — a member who retired with 34 years of service and has been retired for 21 years has 55 units and would receive a $385 payment
- Donna — a disability recipient with 25 years of service and 10 years as a benefit recipient has 35 units and would receive a $245 payment
- Jennifer — a joint and survivor annuitant of a member who retired 30 years ago with 30 years of service has 60 units and would receive a $420 payment

Questions?

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COLA Comparison

Sept. 20, 2024

Background

At the August board meeting, the question was raised as to how OPERS includes a COLA benefit every year

- The short answer is that by statute, COLA is automatic for OPERS where STRS Ohio must pass fiscal integrity before a benefit can be added
- For 2024, the OPERS COLA is
  - 3% for those with effective dates prior to January 2013;
  - 2.3% (calculated based on CPI-W with a max of 3%) for all others

The longer answer is that no two pensions are exactly alike, and great care needs to be taken in comparing just one benefit

Comparison of STRS Ohio to OPERS

	STRS Ohio	OPERS
Pension Reform	**Benefit changes phased in**	**Benefit tiers created**
COLA	**Must pass fiscal integrity**	**Automatic in statute**
Average Benefit	**$46,400**	**$31,500**
DB Funded Ratio	**81.3%**	**83.8%**
DB Funding Period	**11.2 years**	**15 years**
Contributions / Total Benefits + Expenses	**50%**	**52%**
Life Expectancy (Female, 60)	**28.7**	**27.3**
Inactive Members eligible for refunds only	**150,382 or 30%***	**705,386 or 56%***
Active/Retired	**1.1**	**1.3**

*Percentage of total members

OPERS Proposed Changes in 2018

HB 413 proposes changes to OPERS COLA

- **WHY NOW?** OPERS is in a strong position to continue funding benefits for current retirees and for future generations. Since we cannot predict future events, we must proactively assess our fund and make these changes now to remain financially secure.
- **WHY MAKE CHANGES TO THE COLA?** Our retirees are living longer in retirement requiring us to pay benefits for many more years than in the past. More importantly they are spending more years in retirement than they did contributing to the system.

Source: www.opers.org/pdf/retirees/house-bill-413-infographic.pdf

Helpful OPERS Q&A

STRS OHIO

I retired before the pension changes you made in 2012 became effective. At that time, I thought I was promised a three percent COLA. How can you change it now?

- OPERS was founded in 1935. We don't currently offer the same level of benefits or services we did when we were founded. Times change, and OPERS must adapt to changes.
- OPERS has made changes to the COLA several times. From 1935 to 1970, OPERS did not have a COLA, and from 1970 on, we have made changes to the COLA based on changing circumstances, as we are considering now. That is why we are seeking your feedback now, due to our long-standing practice of proactive planning to ensure the long-term funding of our System.

Source: www.opers.org/retirees/cola.shtml

Questions?

Appendix: Preservation of Purchasing Power

- **Approximation of how much purchasing power would be preserved by the COLA structure of various systems, over a period from 1984-2023 and over a period from 2004-2023**
- **California has a specific (separately funded) mechanism to maintain purchasing power of at least 85%**
- **Plans with ad-hoc COLAs are not shown**
  - The actual historical COLAs paid by STRS Ohio over this period would have preserved 84% of purchasing power over 20 years, and 65% over 40 years

Plan	20 years	40 years
Social Security	100%	100%
California	>=85%	85%
Illinois, Tier 1	109%	103%
Illinois, Tier 2	77%	55%
Missouri	82%	65%
Nevada, Tier 1	88%	84%
Nevada, Tier 3	85%	77%
Georgia	91%	80%
New York	68%	42%
Simple 2%	84%	59%
Simple 3%	96%	72%
No protection	60%	33%

Source: February 2024 Board Presentation

Appendix: Sources

	STRS Ohio	OPERS
Pension Reform	www.strsoh.org/news/ongoing/strengthening-the-financial-condition-of-your-retirement-system.html	www.ohiojudges.org/Document.ashx?DocGuid=bdebdc20-0db3-48e8-9e38-0fe2beec5a44
COLA	ORC 3307.67	https://perspective.opers.org/opers-announces-cola-for-2025/
Average Benefit	2023 ACFR p 85	2023 ACFR p 138
2023 Funded Ratio	2023 ACFR p 83	2023 ACFR p 25
2023 Funding Period	2023 ACFR p 83	2023 ACFR p 38
Contributions / Total Benefits + Expenses	2023 ACFR p 11	2023 ACFR p 24
Life Expectancy (60 F)	www.strsoh.org/_pdfs/brochures/15-126.pdf, p 25	2022 Act Val p X-12
Inactive Members eligible for refunds only	2023 ACFR p 20	2023 ACFR p 33
Active/Retired	Internal STRS Ohio statistics	2023 Act Val p I-11